

MARCH 2018

TO OUR SHAREHOLDERS



ALEX GORSKY

Chairman and Chief Executive Officer

It is my honor to be writing my sixth annual letter to you as shareholders and stakeholders of this great company. Sometimes it seems as if these six years have flown by in six minutes, given the fast pace of the world in which we all live and work. Change is the dominant theme of business, politics and culture today.

During this time of unparalleled change, it is vital that we do not become fixated on this very moment; but rather take a longer-term view and look much further ahead. In fact, every year for the past 132 years, Johnson & Johnson has been involved in defining the future of healthcare. No matter how many billions of lives we have touched over those decades, or will touch in the years to come, we always see and feel this challenge in the context of that one person, that one individual who has put their trust in us today and will tomorrow.

Ahead, we see a future that lies beyond the intersection of science and technology. We are rocketing toward that future, toward

the very edge of imagination and possibility. That's exciting, of course, and just a little daunting at the same time. Getting to that future will require urgency, boldness and vision—characteristics most often attributed to very successful startups. However, I believe it is also a great description of this company today—a 132 year-old startup.

We are moving in fast-forward, but our momentum comes from a base as solid as the marble on which Our Credo is inscribed. It is our rock, our foundation, our DNA. Our Credo was written seventy-five years ago, it remains relevant today, and I'm certain it will continue to sustain us for the next seventy-five years and beyond.

DELIVERING SHAREHOLDER VALUE

Johnson & Johnson's total shareholder return for 2017 was more than 24%, exceeding our competitor composite, as well as exceeding most major indices which, I am proud to say, Johnson & Johnson has done over the last three-

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five-, ten- and twenty-year periods. Our shareholder return for 2017 is indicative of the strength of our business, as well as the long-term strategic focus and execution that our leaders and teams have delivered over the past several years.

Our track record of strong shareholder returns is also the result of our approach to managing for the long-term, our relentless drive for innovation, our disciplined portfolio management, our capital allocation strategy, and our unwavering commitment to the highest level of execution, all of which are regularly discussed as part of our ongoing strategic planning with our Board of Directors.

Most importantly, our success for shareholders reflects our singular focus on serving our patients and consumers, the doctors and nurses, the mothers and fathers and all others who use our products and have benefitted from, as well as shared in, our triumphs over the past year.

DRIVING INNOVATIVE SOLUTIONS

Through the decades, Johnson & Johnson has advanced with the evolution of science and technology—whether it was through our pioneering development of sterile surgery at the turn of the 20th century—or today as we work to develop a differentiated robotic-assisted surgery platform in orthopaedics, build novel regimens to boost T cells and train them to recognize and attack cancer through our groundbreaking immunology efforts, and focus to create the first vaccine for HIV/AIDS. These are just some of the many examples that

underscore our commitment to lead the next frontier of health.

A culture of collaborative innovation has been the basis for every achievement, every step and leap forward since our inception as a company. That culture—singularly focused on the best outcomes for patients and consumers around the world—continues to motivate us today. That's why we are convinced that technology will not replace, but rather will extend human caring, that human touch which has always distinguished our work, and always will.

As the healthcare landscape, science and technology continue to evolve, all three of our business segments are well positioned to meet the needs of our patients, consumers, healthcare professionals, employees, communities and shareholders. As with any organization, we have areas where we are performing very well and other areas where we are working to fulfill our full potential. We remain 100% committed to having all of our businesses deliver the highest levels of innovation, customer satisfaction, and overall performance.

PHARMACEUTICALS

Our Pharmaceutical business has delivered outstanding and sustained performance for more than seven years, driven by the successful launch and growth of many blockbuster medicines. As we move forward, we will drive the continued growth of our existing medicines, while also delivering on our near-term pipeline. And, we remain focused on driving robust innovation to address high unmet

medical needs and leveraging our strong commercial capabilities across each of our six therapeutic areas.

For 2018, we expect our key catalysts for growth will include:

- Securing new indications to reach more patients and increase market penetration for life-changing products such as DARZALEX[®], IMBRUVICA[®], STELARA[®] and XARELTO[®].
- Driving best-in-class uptake of TREMFYA[®], which was approved last July in the U.S. and last November in the EU.
- The growth of Actelion products.
- The successful launch of ERLEADA[™] in the U.S.
- Submitting regulatory applications for new molecular entities (NMEs), which include esketamine, erdafitinib, and six significant line extensions.

Some of these names may be new or unfamiliar to you, however each one of our medicines and products offers a lifesaving or life-changing solution that gives new hope to patients around the world. We expect to file for the approval of up to eight compounds by 2021—each with more than \$1 billion peak revenue potential—as well as multiple line extensions, many with revenue potential exceeding \$500 million annually.

MEDICAL DEVICES

We've improved quality, execution and competitiveness; filled many critical portfolio gaps; and built new platforms, services and digital solutions. This is

how we continue to strengthen the foundation and simplify operations in Medical Devices.

Our near-term priority is to accelerate growth through innovation and improved execution with our customers on a global basis. We have also instituted a rigorous portfolio management process to better focus our efforts. We are launching new commercial models and customer experiences in response to healthcare consolidation and the development of alternative sources for healthcare. We are also seeing an increasing impact of technology and data on the products and services we are delivering to improve outcomes in a cost-effective manner. Additionally, we will complete our restructuring initiative and achieve the majority of our targeted pre-tax cost savings of \$800 million to \$1 billion by the end of 2018 to better position us for the evolving marketplace.

Our goal is to build on the topline acceleration we saw in the second half of 2017. We plan to drive growth in 2018 by:

- Launching several new products across our orthopaedics, surgery and interventional portfolios.
- Progressing the development of our digital surgery solutions.
- Maximizing new market growth opportunities in platforms such as stroke and in care delivery locations beyond the hospital.
- Delivering a steady stream of innovative, next generation products to meet a broad set of eye health needs, while using new channels to effectively connect

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with customers; and building a premium surgical channel with superior intraocular lenses (IOL technology).

- Further enhancing our world-class commercial capabilities, with a relentless focus on execution.

Considering the progress we've made in our Medical Devices business, we are pleased, but never satisfied. We know there is still a great deal of work ahead of us to ensure we are ideally positioned to consistently deliver innovative solutions and value in 2018 and beyond.

CONSUMER

Despite the global category slowdowns experienced in 2017, we were largely able to retain our share gains from 2016.

In the latter half of 2017, we launched several new products that will position us well in 2018 and we will continue to innovate throughout the year. As consumers change their shopping habits, our business has evolved to ensure our products are well-positioned in both traditional and emerging channels. We are using our global scale to strengthen our megabrands while utilizing unique insights to ensure local relevance to consumers throughout the world.

In 2018, we will focus on driving Consumer growth by:

- Broadening the scope of our innovation model with breakthrough global platforms including the relaunch of our market leading Johnson's brand, which includes a complete redesign of ingredients, packaging and communication to meet the needs of today's parents.
- Accelerating growth by bringing our

beloved brands—NEUTROGENA[®], AVEENO[®], LISTERINE[®], TYLENOL[®], MOTRIN[®] and ZYRTEC[®]—to more consumers around the world, ensuring our products are available wherever and whenever consumers want to buy them.

- Continuing to build our strong brand portfolio through innovation that matters to consumers, delivering superior science and differentiated products that are professionally endorsed.

I am confident that our Consumer business strategies will position us for success.

At the same time, we will remain agile in adapting to and addressing the needs of a rapidly changing market, continuously evolving our capabilities and delivering relevant solutions.

VALUE-CREATING COLLABORATIONS

Without any doubt, increasing investment in innovation is the most important aspect of our strategy. In 2017, we achieved record levels of investment: \$10.6 billion in R&D and \$35.2 billion in M&A. This resulted in a number of acquisitions and new collaborations, including Actelion, the company's largest acquisition to date, which added a sixth therapeutic area to our Pharmaceutical business. Adding Actelion's portfolio to our already strong Pharmaceutical business has created a distinct opportunity for Johnson & Johnson by expanding our portfolio with leading, differentiated in-market medicines, cutting-edge new therapies and promising late-stage products.

Additionally, adding Abbott Medical Optics to our portfolio allows us to expand into

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new areas within the eye health space. In total, we completed 17 acquisitions and licensing agreements of various sizes, 60 innovation deals and made 21 new investments through Johnson & Johnson Innovation—JJDC, Inc. during 2017.

We continue to build upon our reputation as a preferred partner in collaborative innovation. And we remain agnostic about where the best ideas come from; we continue to work with many different partners in technology and science to develop transformational innovation that fits with our strategies.

For instance, in late 2017, we announced a collaboration with Legend Biotech, a China-headquartered company, to develop a breakthrough investigational CAR-T cell immunotherapy against multiple myeloma, which remains an incurable disease for many patients. We are hopeful that by applying shared knowledge and expertise, we can create regimens that aim for a cure.

Recently, we've launched several new collaborations to drive the development of novel solutions that can impact healthcare. These collaborations focus on addressing areas of unmet medical need and include exciting new ideas such as the use of Artificial Intelligence to detect signs of Alzheimer's disease earlier, harnessing the microbiome to treat sleep disorders, and offering in-home Skin 360™ technology.

Our commitment to collaboration-based innovation will extend to other exciting new partnerships in 2018—merging breakthroughs in science and technology

with the continuing priority of putting and keeping the patient and consumer satisfaction and value at the center of our efforts.

Additionally, consistent with our innovation investment strategy is our general approach in response to the recently enacted new tax legislation that impacts U.S. based multinational companies. As you probably recognize, J&J has been calling for a modernization of U.S. tax laws for some time—the last major corporate tax reform measures were taken over thirty years ago. This new legislation moves the U.S. in the direction of a modern international tax system, and acts to level the competitive playing field for global corporations like ours. This law also preserves the Research & Development (R&D) tax credit and includes other incentives to encourage U.S. investment.

Although this reform has dominated U.S. and global media over the past few months, we will treat the resulting opportunities for investment as we always have by focusing on innovation and long-term returns. Clearly, this is an approach that has been proven over many decades of experience as a global corporation. We will invest as much as possible in innovation and the R&D of new solutions and new products. Johnson & Johnson ranks among the top five companies in the U.S. across all industries for investment in R&D—demonstrating our commitment to driving growth through innovation across all operations. We strongly believe this is the best way to stimulate economic growth throughout our industry, company, and

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THE SUCCESS WE ACHIEVE FOR PATIENTS, CONSUMERS, STAKEHOLDERS AND SHAREHOLDERS WOULD NOT BE POSSIBLE WITHOUT THE COMMITMENT OF 134,000 DIVERSE AND TALENTED J&J EMPLOYEES IN SIXTY COUNTRIES AROUND THE WORLD.

communities. Most importantly, we believe that increased and focused investment in innovation and R&D is the best way to ultimately benefit and positively impact our patients, consumers and shareholders around the world.

EVOLVING A BETTER SYSTEM

I am optimistic about 2018 and beyond. It is a future where virtually anything that can be imagined can be accomplished, and it requires vision, leadership, capability and execution. That is certainly easier said than done, however; we have the brilliant and creative minds, access to technological capabilities and aspirational, but executable, strategies to design and deliver transformational advances that provide quality healthcare in every corner of the globe.

As the world's largest and most broadly-based healthcare company, we have a unique perspective on and understand what patients, consumers and healthcare professionals want and, most importantly, need. Along with this perspective also comes a unique responsibility to lead the change that the world needs to see now—and in the years ahead—to help ensure global access to safe, viable and affordable healthcare.

We are committed to helping lead the way forward from the costly and inefficient volume-based healthcare system that has characterized most countries' approaches—a system which rewards more procedures, more tests, more paperwork and more bureaucracy. Studies have repeatedly shown that more is

almost never better, and sometimes decidedly worse.

In its place, we want to see a system that is personalized and value-based. A value-based system begins and ends with the patient at the center of every consideration and is judged on the overall outcome. Striving to provide patients with personalized healthcare experiences, affordable access and coverage choices, convenience and innovative capabilities for healthcare management, remains a top priority for Johnson & Johnson.

I believe the future of healthcare is further highlighted by the recent announcements regarding blue chip companies joining forces to offer independent healthcare to their employees. This is just one of what I hope will be many more examples to come, where industry leaders, including Johnson & Johnson, take the initiative to influence or disrupt the ever-evolving healthcare landscape. Indeed, no company and no political or business leader can remain a bystander in the search for solutions to extend access to the highest quality and value-based healthcare. This is just too important—the situation demands action, and action now.

PUTTING PEOPLE FIRST AND LIVING OUR PURPOSE

The success we achieve for patients, consumers, stakeholders and shareholders would not be possible without the commitment of 134,000 diverse and talented J&J employees in sixty countries around the world. Our goal is to create the world's best, healthiest, and most engaged

workforce. We are investing more than ever in programs that encourage healthy eating, movement and resilience. We want to help promote total health—physical, emotional and mental health, as well as financial health. We ensure the financial wellness of our employees by providing competitive compensation programs and important benefits to support healthy families.

These programs are positively impacting our employees wherever they live and work, helping improve their productivity, health, and total well-being. I am confident these programs will also help us achieve our goals of attracting, developing and retaining the very best talent for Johnson & Johnson.

We know that good health is the foundation of vibrant and productive lives, thriving families and communities and forward progress for any country on earth. We aim to keep people well at every age and every stage of life. As in the past, we look toward the future with a renewed commitment to use our reach and size for good. We strive not only to improve access and affordability, but also to create healthier communities, and put a healthy mind, body and environment within the reach of everyone, everywhere. We are blending heart, science and ingenuity to profoundly change the trajectory of health for humanity.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This letter contains forward-looking statements relating to, among other things, future operating and financial performance, product development, market position and business strategy. The reader is cautioned not to rely on these statements, which are based on current expectations of future events. For important information about these statements, including the risks, uncertainties and other factors that could cause actual results to vary materially from the assumptions, expectations, and projections expressed in any forward-looking statements, the reader should review the enclosed Annual Report on Form 10-K for the fiscal year ended December 31, 2017, including in the sections captioned "Cautionary Note Regarding Forward-Looking Statements" and "Item 1A. Risk Factors." Johnson & Johnson does not undertake to update any forward-looking statement as a result of new information or future events or developments.

SEEING THE FUTURE TODAY

For the past six years, I have been fortunate to lead an organization of outstanding professionals. I have also enjoyed the guiding support of our Board of Directors, all highly accomplished leaders themselves. I am proud and humbled to work with a team of executive leaders whose partnership and acumen inspire me and all of our colleagues.

Over my 30-year career, I've learned that healthcare attracts individuals with a unique commitment to serving others, and this company attracts the very best of those extraordinary people. We believe in our purpose; we believe in Our Credo that guides us; we believe in each other; and because of all that, we believe deeply in the future. I hope you do, too.

Thank you again for your continued confidence and unwavering support as we unite to meet our commitment to profoundly change the trajectory of health for humanity.

Sincerely,



Alex Gorsky
Chairman and Chief Executive Officer
Johnson & Johnson

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